

Shorn of major policy announcements, the Spring Statement is an opportunity for the Office for Budget Responsibility (OBR) to update its economic and fiscal forecasts, and for the Chancellor to announce policy reviews on everything from minimum wages to biodiversity.

So how have the forecasts changed since October 2018?

The forecast for GDP growth in 2019 has been revised down from 1.6% to 1.2%, partly offset by slightly higher growth in 2021 and 2022. The downward revision in 2019 is largely reflective of global developments, and the UK's GDP growth in 2018 was mid-table among G7 comparators.

But in a boon to the Chancellor, recent growth has again proven to be more 'tax-rich' than had been forecast - as was also the case in October. Income tax revenues and NICs are forecast to raise £4bn more in 2019/20 and £7bn more in 2020/21 than was the case a few months ago. This improved outlook reflects higher than expected average earnings combined with particularly strong income growth among the highest earners, who pay relatively high marginal rates of tax.

This improvement in earnings is complemented by lower costs of government borrowing. Both of these factors result in a downward revision to the deficit forecast in 2019/20 and beyond\*.

The Chancellor is now well on course to meet his 'fiscal mandate' with some leeway. His mandate is to run a structural deficit below 2% of GDP by 2020/21, and on today's forecasts the deficit is forecast to be 1.3% of GDP in 19/20, falling to 0.8% in 20/21.

In principle this means the Chancellor could spend an additional £15bn in 19/20 and £26bn in 2020/21 and still remain on course to meet his fiscal mandate (although in reality the headroom that the Chancellor has available will fall by around £10bn annually once changes to the accounting treatment of student loans are implemented).

But where does Brexit come into all this?

The OBR is mandated to make its projections on the basis of stated government policy. The Spring Statements are therefore based on the assumption that the UK makes an 'orderly' departure from the EU on 29 March into a transition period that lasts to the end of 2020 and onto a new - though as yet undefined - long-term relationship.

What we know as a result of today therefore is what is likely to happen if the UK leaves the EU at the end of March on terms broadly in line with those set out in the Withdrawal

## Agreement:

- With at least the immediate uncertainty of the UK's relationship with the EU removed, the UK Government would launch a Spending Review before summer which would report in time for the Autumn budget.
- This Spending Review would set out departmental spending limits for a three-year period from 2020/21 (at the moment, we have virtually no indication as to how the Chancellor might choose to use the 'headroom' against his fiscal mandate, other than a broad suggestion that it might involve both spending increases and tax cuts).
- In principle this would pave the way for the Scottish Government to undertake a Spending Review of its own in late 2019/ early 2020, although whether it would mean a multi-year Scottish budget at the end of 2019 remains unclear.

So the spectre of some fiscal certainty is dangled in front of MPs, should they choose to have a change of heart and back the government's Withdrawal Agreement (potentially at a third vote).

But if the UK were to leave the EU at the end of March without a deal, all this would change. The OBR has not explicitly modelled the effects of a 'no deal' on the economy and public finances, given 'substantial uncertainty' about the consequences and the policy response. But the expectation is of an immediate short-term deterioration in the economic and fiscal outlook, and a more permanent decline in 'potential output' - as a result of weaker productivity growth and lower net migration - which the government would have little scope to mitigate by running looser fiscal policy.

An extension to article 50 would perpetuate uncertainty which in itself could lead to a deterioration in the economic and fiscal outlook, and would likely result in the Spending Review kicked into long grass.

The Spring Statement should therefore be taken for what it is - a statement about what might happen under a set of circumstances that looks increasingly unlikely to materialise, but that at the moment is the best guess that anyone has.

\* The government did announce some extra departmental spending, which will generate modest consequential for the Scottish budget. But most of this reflects an increase in cash spending required to maintain previously announced levels of real terms spending in face of a higher deflator. It does not represent an explicit easing of austerity.

## Spring Statement 2019: route-map to an unlikely destination?